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FM AMEMBASSY HANOI  
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SIPDIS

STATE FOR EAP/BCLTV, EB/IFD/OMA AND EB/IFD/ODF  
STATE PASS USAID FOR ANE/SPOTS: DMCLUSKEY AND  
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SUBJECT: VIETNAM CONSULTATIVE GROUP MEETING: A REALISTIC  
VIEW OF PROGRESS

REF: HANOI 02805

**11.** (U) SUMMARY: THE TENTH VIETNAM CONSULTATIVE GROUP OF  
DONORS (CG) MEETING TOOK PLACE IN HANOI DECEMBER 9-11,  
**12002.** DONORS AT THE MEETING, CO-CHAIRIED BY THE GOVERNMENT  
OF VIETNAM (GVN) AND THE WORLD BANK, EXPRESSED CONTINUED  
SUPPORT TO THE GVN'S ACTION PROGRAM FOR 2002-2007 AND  
URGED VIETNAM TO IMPLEMENT ITS COMPREHENSIVE POVERTY  
REDUCTION AND GROWTH STRATEGY (CPRGS). FIVE KEY TARGETS  
WERE IDENTIFIED AT THE OUTSET: CONTINUED HIGH AND  
SUSTAINED ECONOMIC GROWTH; EQUITABLE SOCIOECONOMIC  
DEVELOPMENT; FURTHER INTEGRATION OF VIETNAM INTO THE  
WORLD ECONOMY; IMPROVED EDUCATION AND TRAINING; AND  
POLITICAL AND SOCIAL STABILITY. DELEGATES EMPHASIZED THE  
NEED TO SPEED UP IMPLEMENTATION OF REFORMS IN ORDER TO  
ENSURE THAT VIETNAM ATTAINS ITS GOAL OF IMPROVING  
COMPETITIVENESS AND CREATING AN EFFICIENT PUBLIC  
ADMINISTRATION, WHILE ENSURING THAT THE POOR ALSO BENEFIT  
FROM GROWTH. SOME OF THE OTHER MAJOR THEMES TOUCHED UPON  
BY PARTICIPANTS INCLUDED THE NEED TO EXPEDITE AND IMPROVE  
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THE EFFICIENCY OF OFFICIAL DEVELOPMENT ASSISTANCE (ODA);  
THE NEED FOR CLEAR GUIDELINES FOR BUSINESS PROTOCOL FOR  
BOTH PUBLIC AND PRIVATE SECTORS; CONTINUED SUPPORT FOR  
THE EQUITIZATION OF STATE-OWNED ENTERPRISES; IMPROVED  
CONTAINMENT OF CORRUPTION; STRONGER ACTIONS TO CURB THE  
SPREAD OF HIV/AIDS; AND ATTENTION TO THE WIDENING GAP  
BETWEEN THE WEALTHY AND THE POOR. DURING THIS CANDID  
DISCUSSION, PARTICIPANTS ALSO RAISED CONCERNs REGARDING  
HUMAN RIGHTS, THE NEED FOR A FREE PRESS, GENDER EQUITY,  
UNDERSERVED POPULATIONS INCLUDING ETHNIC MINORITIES,  
TRANSPARENCY, AND GVN PROGRESS IN IMPLEMENTING ITS CPRGS.

**12.** (U) THE US DELEGATION, CO-CHAIRIED BY AMBASSADOR  
BURGHARDT AND USAID REGIONAL MISSION DIRECTOR LISA  
CHILES, MADE A NUMBER OF WELL-RECEIVED INTERVENTIONS  
REGARDING THE IMPORTANCE OF TRANSPARENCY, CLEAN PUBLIC  
ADMINISTRATION, AN OPEN AND VIBRANT ECONOMY, FREE PRESS,  
TRULY OPEN COMPETITION AS THE STATE DISMANTLES STATE-  
OWNED MONOPOLIES SUCH AS TELECOMMUNICATIONS AND POWER,  
AND THE URGENT NEED TO CURB THE HIV/AIDS EPIDEMIC THROUGH  
INCREASED APPROPRIATE PUBLIC LEADERSHIP. IN ADDITION,  
THEY HIGHLIGHTED THE NEED FOR ODA AND STATE INVESTMENT TO

FOCUS ON THOSE AREAS THAT ONLY THEY CAN DO, SUCH AS HEALTH AND EDUCATION, WHILE ALLOWING THE PRIVATE SECTOR TO INVEST IN MANUFACTURING AND SERVICES. THE US DELEGATION FURTHER NOTED THE NEED FOR GREATER INVOLVEMENT OF LOCAL NON-GOVERNMENTAL ORGANIZATIONS IN CG DISCUSSIONS; THE NEED TO REINFORCE NON-TAXATION POLICIES FOR ODA; AND THE PROGRESS THE GVN HAS MADE IN CONTRIBUTING TO THE HARMONIZATION OF ODA PROGRAMS. IN THE FINAL SESSION, THE USG PLEDGED \$33.6 MILLION IN UNCLASSIFIED

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ASSISTANCE TO VIETNAM, CONTINGENT ON THE AVAILABILITY OF FUNDS. THE TOTAL CONTRIBUTION TO VIETNAM IN THE FORM OF GRANT AND LOAN ASSISTANCE TOTALLED \$2.5 BILLION FOR THE COMING YEAR - AN OVERALL INCREASE FROM LAST YEAR BUT ONE THAT FALLS SHORT OF THE GVN'S ESTIMATION OF NEED - ROUGHLY \$3 BILLION. NONETHLESS, GIVEN THE CURRENT WORLD ECONOMIC CLIMATE, THIS WAS VIEWED AS A POSITIVE COMMITMENT AND A REFLECTION OF GENERAL SATISFACTION WITH THE GVN AMONG DONOR COMMUNITY CONSTITUENTS. END SUMMARY.

**14.** (U) THE CONSULTATIVE GROUP FOR VIETNAM MET UNDER THE CO-CHAIRMANSHIP OF MR. VO HONG PHUC, MINISTER OF PLANNING AND INVESTMENT, AND MR. KLAUS ROHLAND, THE WORLD BANK'S COUNTRY DIRECTOR FOR VIETNAM. DEPUTY PRIME MINISTER VU KHOAN AND MINISTER PHUC LED THE VIETNAMESE DELEGATION. ROHLAND OPENED THE MEETING WITH A STATEMENT THAT FOCUSED ON THE CURRENT GLOBAL POLITICAL AND ECONOMIC CLIMATE AND THE NEED TO WORK FLEXIBLY WITH THE GVN'S COMPREHENSIVE POVERTY REDUCTION STRATEGY. HE ALSO DESCRIBED THE PROGRESS VIETNAM HAD WITNESSED OVER THE LAST DECADE, AS WELL AS CERTAIN CHALLENGES THAT VIETNAM AND THE DEVELOPMENT COMMUNITY WILL FACE, INCLUDING EQUITIZATION OF STATE-OWNED ENTERPRISES (SOE'S), FISCAL, FINANCIAL AND PUBLIC SECTOR REFORM, AND THE SEARCH FOR NEW WAYS TO AVOID INEQUITIES AND INEQUALITIES IN IMPLEMENTING THE

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POVERTY REDUCTION STRATEGY.

**15.** (U) DPM KHOAN EXPRESSED GRATITUDE TO THE DONOR AND NGO COMMUNITIES FOR ASSISTANCE AND NOTED THE NEED TO REVIEW VIETNAM'S SOCIOECONOMIC DEVELOPMENT PLAN. HE POINTED OUT THAT, DESPITE NATURAL DISASTERS, VIETNAM'S GDP HAS GROWN 7% THIS YEAR AND THAT VIETNAM'S GENERAL PRODUCTIVITY IS ON THE RISE. DPM KHOAN EXPRESSED SATISFACTION WITH THE DECREASE IN THE PERCENTAGE OF HOUSEHOLDS BELOW THE POVERTY LINE, WHICH FELL FROM 20% TO 14.4%. FURTHERMORE, HE LAUDED THE 1.4 MILLION JOBS THAT WERE CREATED IN 2002. HE ALSO HIGHLIGHTED SUBSTANTIAL

DEVELOPMENT IN THE RURAL SECTOR OVER THE LAST YEAR.

**16.** (U) DPM KHOAN TOUCHED ON THREE PRIMARY TASKS FOR THE GVN: 1) THE ENHANCEMENT OF THE QUALITY AND EFFICIENCY OF THE COMPETITIVENESS OF VIETNAM'S ECONOMY IN THE WORLD MARKET, 2) COMPREHENSIVE HUMAN RESOURCES DEVELOPMENT, INCLUDING DEVELOPMENT OF SOCIAL AND ENVIRONMENTAL FACTORS, AND 3) STRONG AND EFFECTIVE PUBLIC  
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ADMINISTRATION REFORM WITH PROMOTION OF DEMOCRACY AND TRANSPARENCY IN ORDER TO REDUCE CORRUPTION AND INCREASE PRODUCTIVITY. FINALLY, THE DPM INVITED DONORS TO PARTICIPATE IN THE IMPLEMENTATION OF THE 2001-2010 MASTER PLAN FOR PUBLIC ADMINISTRATION REFORM AND COMMENTED ON THE IMPORTANCE OF BUILDING PARTNERSHIPS AND HARMONIZATION OF INCOMING ODA AND ASSOCIATED PROGRAMS.

**17.** (U) THIS YEAR'S CONSULTATIVE GROUP MEETING FOCUSED ON THREE MAIN TOPICS: 1) IMPROVING COMPETITIVENESS AND EFFECTIVENESS, HUMAN DEVELOPMENT AND ADMINISTRATION REFORM TO GET FAST AND SUSTAINABLE DEVELOPMENT; 2) ORGANIZING THE IMPLEMENTATION FOR THE COMPREHENSIVE POVERTY REDUCTION AND GROWTH STRATEGY AND FORMULATING AN APPROPRIATE PUBLIC INVESTMENT PROGRAM; AND 3) IMPROVING ODA EFFECTIVENESS AND NEEDS. MPI PHUC ADDITIONALLY IDENTIFIED FIVE KEY TARGETS: POLITICAL AND SOCIAL STABILITY; CONTINUED HIGH AND SUSTAINED ECONOMIC GROWTH; EQUITABLE SOCIOECONOMIC DEVELOPMENT; INTEGRATION OF VIETNAM INTO THE WORLD ECONOMY; AND, IMPROVED EDUCATION AND TRAINING.

COMPETITIVENESS AND SUSTAINABLE DEVELOPMENT

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**18.** (U) MPI PHUC OPENED THE FIRST SESSION WITH AN OUTLINE OF MEASURES THAT THE GVN WOULD LIKE TO TAKE, INCLUDING RESTRUCTURING THE RURAL ECONOMY AND BUILDING ON VIETNAM'S COMPARATIVE ADVANTAGES IN LAND AND LABOR RESOURCES. HE TOUCHED ON INDUSTRIAL GROWTH AND THE NEED TO DEVELOP THE SERVICE SECTOR. ADDITIONALLY, HE NOTED  
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THE GVN MANDATE FOR THE ABOLISHMENT OF MONOPOLIES IN CERTAIN SECTORS, INCLUDING POWER AND TELECOMMUNICATIONS. MPI PHUC ALSO EMPHASIZED THE NEED TO DEVISE EFFECTIVE ACTION PLANS FOR PUBLIC ADMINISTRATION REFORM. THE WORLD BANK COMMENDED THE GVN ON PLACING GREATER EMPHASIS ON THE DEVELOPMENT AND INCLUSION OF RURAL POOR COMMUNITIES IN THE CENTRAL HIGHLANDS, WHICH HAVE HISTORICALLY BEEN NEGLECTED.

**19.** (U) THE FIRST DISCUSSION SESSION, WHICH WAS LED BY THE REPRESENTATIVES OF THE UNDP, JAPAN, FRANCE, AND THE IMF, EXAMINED THE NEED FOR ENHANCED COMPETITIVENESS, PARTICULARLY IN TERMS OF SETTING A REGULATORY FRAMEWORK AND IMPROVING THE ENVIRONMENT FOR BOTH FOREIGN AND DOMESTIC INVESTMENT. PROMPTED IN PART BY THE UNDP'S STATEMENT ABOUT VIETNAM'S NEED TO MAKE VIETNAM THE "BEST PLACE TO LIVE," DISCUSSANTS FOCUSED ON THE NEED FOR IMPROVED HUMAN DEVELOPMENT BY PLACING VIETNAMESE CITIZENS AT THE CENTER OF DEVELOPMENT. PARTICIPANTS SUPPORTED THE EDUCATION FOR ALL INITIATIVE, THE NEED TO ADDRESS VULNERABILITIES OF ETHNIC MINORITY GROUPS, STRONGER PUBLIC ACTIONS TO CONTAIN THE SPREAD OF HIV/AIDS, THE GROWING NEED FOR EMPLOYMENT OPPORTUNITIES FOR YOUTH, GREATER SUPPORT FOR DEVELOPMENT OF THE PRIVATE SECTOR, AND THE NEED TO ENSURE POLITICAL, CIVIL AND RELIGIOUS

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RIGHTS.

**¶10.** (U) ADDITIONAL COMMENTS, INCLUDING THOSE BY THE IMF, EMPHASIZED INCREASING VIETNAM'S COMPETITIVENESS, IMPROVING THE DOMESTIC LEGAL STRUCTURE AND TRANSPARENCY, ACCELERATING DEREGULATION, IMPLEMENTING THE ENTERPRISE LAW AGGRESSIVELY OUTSIDE MAJOR URBAN AREAS, AND PAYING GREATER ATTENTION TO OCCUPATIONAL HEALTH, SAFETY, AND ENVIRONMENTAL STANDARDS. AMONG OTHERS, THE JAPANESE NOTED THAT LOW-COST LABOR ALONE WILL NOT ENSURE COMPETITIVENESS. THE IMF STRESSED THAT SOE EQUITIZATION AND THE SUCCESSFUL IMPLEMENTATION OF THE US-VIETNAM BILATERAL TRADE AGREEMENT WILL ENHANCE THE PROSPECTS FOR VIETNAM'S COMPETITIVENESS IN THE WORLD ECONOMY.

**¶11.** (U) A NUMBER OF PARTICIPANTS ALSO EXPRESSED CONCERNS ABOUT THE HIGH COSTS OF CURATIVE HEALTHCARE AND BASIC EDUCATION. THE "LIKE-MINDED DONORS GROUP," AN AD HOC GROUPING OF NINE BILATERAL DONORS THAT ARE DRAWN TOGETHER BY A COMMON COMMITMENT TO THE CPRGS AND

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IMPROVING THE QUALITY OF AID THROUGH DONOR HARMONIZATION, CITED THE WIDENING GAP BETWEEN THE RICH AND THE POOR AND MINIMAL PROGRESS ACHIEVED THUS FAR IN PUBLIC ADMINISTRATION REFORM. SOME CONGRATULATED THE GVN FOR ITS WORK ON THE NATIONAL EDUCATION PLAN. HOWEVER, SOME RAISED CONCERNS REGARDING VIETNAM'S LACK OF TRANSPARENCY, WHICH IS A PREREQUISITE FOR POSITIVE LEGAL REFORM, SUSTAINED ECONOMIC GROWTH, AND POVERTY REDUCTION. SEVERAL DELEGATES ALSO COMMENTED THAT THE GVN WOULD ONLY BE ABLE TO CONTAIN CORRUPTION IF IT REDUCES DISCRETIONARY AND DISCRIMINATORY PROCEDURES AND IMPROVES FINANCIAL MANAGEMENT. IMPORTANT ACTIONS PROPOSED BY DELEGATES TO COMBAT CORRUPTION INCLUDED STRENGTHENING PROFESSIONALISM AND EFFICIENCY IN THE PUBLIC SECTOR, PAYING CIVIL SERVANTS A LIVING WAGE, IMPROVING SIMPLICITY AND TRANSPARENCY IN DECISION-MAKING PROCESSES, AND FACILITATING IDEA-SHARING AND DEBATE IN A FREE PRESS.

**¶12.** (U) MPI PHUC RESPONDED TO COMMENTS FROM THE DELEGATES BY NOTING THAT THE GVN IS DEVELOPING PROGRAMS FOR RURAL DEVELOPMENT, WITH SPECIAL ATTENTION TO LAND AND HOUSING CONCESSIONS FOR ETHNIC MINORITIES IN THE CENTRAL HIGHLANDS AND NORTHERN MOUNTAINOUS AREAS. HE ALSO SAID THAT HUMAN RESOURCE DEVELOPMENT HAS BEEN AND WILL CONTINUE TO BE A STRONG FOCUS OF THE GVN. ACCORDING TO PHUC, DEMOCRACY AND TRANSPARENCY ARE INTEGRAL COMPONENTS OF VIETNAM'S LEGAL REFORM.

**¶13.** (U) REFERRING TO PHUC'S ASSERTION THAT THE GVN WAS MOVING TOWARD ABOLISHING GVN MONOPOLIES IN TELECOMMUNICATIONS, POWER GENERATION, AND OTHER RELATED

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INDUSTRIES, AMBASSADOR BURGHARDT NOTED THAT SUCH MONOPOLIES COME AT A HIGH COST TO VIETNAM. HE EMPHASIZED THAT THE COST WOULD ONLY BE REDUCED IF TRUE COMPETITION WERE ALLOWED IN ALL SECTORS, INCLUDING SHIPPING, TRANSPORT, AND MINING. AMBASSADOR EXPRESSED SATISFACTION WITH THE GVN MOVE TOWARD ABOLISHING MONOPOLIES, BUT CAUTIONED AGAINST THE CURRENT GVN NOTION OF INCREASING "COMPETITION," THAT IS, CREATING NEW SOE'S WITHIN THE GOVERNMENT MONOPOLY RATHER THAN INTRODUCING REAL COMPETITION BY ALLOWING THE ENTRY OF DOMESTIC AND FOREIGN PRIVATE ENTERPRISES. SUCH REAL COMPETITION, HE STATED, WOULD PUT VIETNAM ON A POSITIVE PATH TOWARD WTO ACCESSION. AMBASSADOR ALSO EXPRESSED SUPPORT FOR STATEMENTS MADE BY THE EU REGARDING CLEANER PUBLIC ADMINISTRATION, FREE PRESS, AND TRANSPARENCY OF INFORMATION FLOW, WHICH ARE KEY INGREDIENTS FOR COMBATING CORRUPTION. AMBASSADOR CITED RECENT GVN DECREES DESIGNED

TO MONITOR, CONTROL, AND INTERFERE WITH INFORMATION FLOW VIA THE INTERNET THAT RUN CONTRARY TO THE REGIONAL TREND TOWARDS A DIGITAL ECONOMY. IN PARTICULAR, HE URGED THE GVN TO RECONSIDER ITS NEW REQUIREMENT TO LICENSE AND CENSOR WEBSITES, INCLUDING THOSE CRUCIAL FOR E-COMMERCE, EDUCATIONAL, DIPLOMATIC, AND OTHER INFORMATION SERVICES. HE ENCOURAGED THE GVN TO ALLOW ALL CITIZENS TO PARTICIPATE FREELY IN THE CIVIL, ECONOMIC, AND POLITICAL

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LIFE OF THEIR NATION, REGARDLESS OF GENDER, ETHNICITY, OR RELIGION. HE ALSO STRONGLY SUPPORTED THE UNDP POSITION REGARDING THE NEED TO CONTAIN THE HIV/AIDS VIRUS.

¶14. (U) A NUMBER OF DELEGATIONS SUPPORTED THE US INTERVENTION (AND MANY MORE SIGNALLED SUPPORT WITH NODS AROUND THE ROOM). MP PHUC RESPONDED IMMEDIATELY THAT THE FREEDOM OF RELIGION AND FREEDOM OF THE PRESS WERE GUARANTEED BY THE VIETNAMESE CONSTITUTION, THAT THE PROBLEM IN VIETNAM WAS NOT TOO FEW NEWSPAPERS BUT TOO MANY, AND THAT VIETNAMESE WERE FREE TO WORSHIP AS THEY CHOSE, AS EVIDENCED BY SOME ETHNIC GROUPS IN THE CENTRAL HIGHLANDS THAT STILL WORSHIPPED SPIRITS IN THE TREES.

REDUCING POVERTY AND PUBLIC INVESTMENT PRIORITIES

¶15. (U) THE SECOND SESSION OF THE MEETING FOCUSED ON THE IMPLEMENTATION OF THE COMPREHENSIVE POVERTY REDUCTION AND GROWTH STRATEGY (CPRGS) AND THE FORMULATION OF AN

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APPROPRIATE PUBLIC INVESTMENT PROGRAM (PIP). LED BY THE ADB, AUSTRALIA, GERMANY, AND SWEDEN, THE DISCUSSION WAS MARKED BY A GENERAL CONSENSUS THAT THE GVN HAD DONE A GOOD JOB ON ITS CPRGS FOR 2001-2005 BUT THAT SERIOUS QUESTIONS REMAINED REGARDING THE PIP AND THE GVN'S PRIORITIES FOR PUBLIC INVESTMENT. ACCORDING TO THE WORLD BANK, VIETNAM'S CPRGS IS UNIQUE FROM A GLOBAL PERSPECTIVE, BECAUSE OF ITS LEVEL OF GOVERNMENTAL OWNERSHIP. THE CPRGS EMBODIES A PARTICIPATORY PROCESS THAT ENCOURAGES COOPERATION AMONG NUMEROUS STAKEHOLDERS. PARTICIPANTS EMPHASIZED THE NEED TO PUSH FORWARD ON IMPLEMENTATION OF THE CPRGS AND THE NEED TO MEASURE PROGRESS AND OUTCOMES THROUGH A UNIFIED MONITORING AND EVALUATION SYSTEM. PARTICIPANTS ALSO NOTED THE NEED TO LINK RECURRENT AND CAPITAL PUBLIC RESOURCES TO THE PRIORITIES ARTICULATED IN THE CPRGS.

¶16. (U) THE GVN OUTLINED THE GOALS OF THE CPRGS AND ANNOUNCED THE ESTABLISHMENT OF A WORKING GROUP TO SUPPORT

A DECENTRALIZED APPROACH TO MINISTRY INVOLVEMENT. THE GVN HIGHLIGHTED THE LINKS AMONG THE PIP, THE CPRGS, AND POVERTY REDUCTION VIA THREE CHANNELS OF INVESTMENT: DIRECT INVESTMENT, THE NATIONAL TARGET PROGRAM, AND INVESTMENT IN EXISTING DEVELOPED INDUSTRIES WITH HIGH POTENTIAL. THE ADB FOCUSED ON SUPPORT FOR THE GVN'S SOCIALLY INCLUSIVE DEVELOPMENT AND THE NEEDS TO MAXIMIZE EMPLOYMENT OPPORTUNITIES, TO REDUCE INEQUALITIES IN SOCIAL SECTORS INCLUDING HEALTH AND EDUCATION, TO DEFINE NON-STATE SECTOR INVOLVEMENT, TO ALIGN ODA RESOURCES BETTER, AND TO AVOID THE INCREASING THE POVERTY GAP. THIS LAST ISSUE WAS ECHOED BY THE AUSTRALIAN DELEGATION,

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PAGE 04 HANOI 03108 04 OF 07 310720Z WHICH ALSO POINTED OUT THE CPRGS' LACK OF RELATION TO/INTEGRATION INTO THE PIP. AN NGO REP STRESSED THE NEED FOR THE GVN TO FOCUS ON EDUCATION FOR THE POOR AND RAISED THE ISSUE OF HIGH EDUCATIONAL COSTS, ESPECIALLY IN THE PROVINCES, WHICH CONTRIBUTED GREATLY TO STUDENTS HAVING TO LEAVE SCHOOL AT AN EARLY AGE.

**¶17.** (U) VICE MINISTER OF TRADE LUONG VAN TU MADE A STRONG PITCH FOR ASSISTANCE FROM THE DONORS IN SECURING GREATER MARKET ACCESS FOR AGRICULTURAL EXPORTS, CLAIMING THAT THE POOR HAVE SUFFERED FROM TRADE BARRIERS AND AGRICULTURAL SUBSIDIES ESTABLISHED BY INDUSTRIALIZED COUNTRIES. SEVERAL DELEGATES, INCLUDING NEW ZEALAND, ECHOED THIS REQUEST. DELEGATES ALSO NOTED THE NEED FOR BROAD-BASED PARTICIPATION, INCLUDING BY THE NATIONAL ASSEMBLY, PRIVATE SECTOR ASSOCIATIONS, AND CIVIL SOCIETY GROUPS, IN ORDER TO ENSURE EFFECTIVE IMPLEMENTATION OF THE CPRGS. THIS BROAD STAKEHOLDER PARTICIPATION REQUIRES PERMANENT SUPPORT OF THE NATIONAL ASSEMBLY, GRASSROOTS DEMOCRACY, AND CONTINUED INVOLVEMENT OF INTERNATIONAL AND NATIONAL NGOS IN THE CONSULTATIVE GROUP FORUM. DELEGATES ALSO POINTED OUT THE NEED TO INVOLVE LOCAL GOVERNMENTS IN EFFORTS TO DECENTRALIZE CPRGS IMPLEMENTATION, NECESSITATING STRENGTHENED CAPACITY AT THE LOCAL LEVEL.

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E-00	FAAE-00	FBIIE-00	UTED-00	VC-00	FRB-00	H-01	
TEDE-00	INR-00	IO-00	ITC-01	LAB-01	L-00	VCE-00	
AC-01	NSAE-00	OES-00	OMB-01	OPIC-01	PER-00	PM-00	
ACE-00	P-00	SP-00	STR-00	TEST-00	USIE-00	FMP-00	
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TO SECSTATE WASHDC 8514  
INFO DEPTTREAS WASHDC  
NSC WASHDC  
USDOC WASHDC  
USDA WASHDC  
DEPTLABOR WASHDC  
SECDEF WASHDC  
AMCONSUL HO CHI MINH CITY  
AMEMBASSY TOKYO  
ASEAN COLLECTIVE

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SIPDIS

STATE FOR EAP/BCLTV, EB/IFD/OMA AND EB/IFD/ODF  
STATE PASS USAID FOR ANE/SPOTS: DMCLUSKEY AND  
ANE/AFERRARRA

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STATE PASS USTP FOR ELENA BRYAN  
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SECDEF FOR ABLAGG

**¶18.** (U) MS. CHILES EXPRESSED SUPPORT FOR THE GERMAN AND NGO POSITIONS REGARDING THE IMPORTANCE OF LOCAL NGO PARTICIPATION IN THE CG. SHE ALSO NOTED CONCERN FOR THE RISING TREND IN HIV/AIDS AND ITS ENTRANCE INTO THE GENERAL POPULATION - BOTH OF WHICH REQUIRE STRONG LEADERSHIP AT THE HIGHEST LEVELS. MS. CHILES ASSURED THE GVN THAT IT HAS MANY FRIENDS PREPARED TO ASSIST WITH THIS PROCESS. AMBASSADOR BURGHARDT REFERRED TO THE ADB'S INTERVENTION REGARDING PRIVATE SECTOR DEVELOPMENT AND THE

NEED TO FOSTER ITS GROWTH THROUGH TRANSPARENCY AND A CLEAR REGULATORY FRAMEWORK. HE WARNED AGAINST CROWDING OUT POTENTIAL PRIVATE SECTOR CONTRIBUTIONS BY DEVOTING ODA AND STATE FUNDS TO AREAS THAT THE PRIVATE SECTOR IS BETTER SUITED TO PROVIDE. HE FURTHER COMMENTED THAT IF THE PRIVATE SECTOR IS NOT ENABLED TO INVEST IN SUCH AREAS, PUBLIC RESOURCES MAY NOT BE AVAILABLE FOR AREAS THAT SHOULD BE RELEGATED TO PUBLIC SPENDING, SUCH AS HEALTH AND EDUCATION.

**¶19. (U) THE WORLD HEALTH ORGANIZATION POINTED OUT THAT UNCLASSIFIED**

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THOSE WHO ARE ENGAGED IN HEALTH SECTOR PROGRAMMING HAVE OTHER GRAVE CONCERN IN ADDITION TO HIV/AIDS. THE DELEGATION HIGHLIGHTED THE NEED FOR GREATER REGULATION OF BOTH PUBLIC AND PRIVATE SECTOR HEALTH-RELATED SERVICES, ESPECIALLY GIVEN THE GROWING ELDERLY POPULATION AND BURGEONING YOUTH POPULATION. IN ADDITION, VIETNAM FACES GREAT CHALLENGES IN MANAGING OTHER HEALTH CONCERN, SUCH AS THE DETRIMENTAL EFFECTS OF SMOKING, A HIGH PREVALENCE OF INJURIES FROM ACCIDENTS, AND TUBERCULOSIS. THE DELEGATION NOTED THE NEED FOR INCREASED TRAINING AND PUBLIC SPENDING TO BUILD THE HUMAN CAPACITY AT LOCAL LEVELS.

ODA EFFECTIVENESS AND PRIORITIES

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**¶20. (U) THE THIRD SESSION FOCUSED ON IMPROVING ODA EFFECTIVENESS AND CLARIFYING PRIORITIES. THE GVN PRESENTED VIETNAM'S PUBLIC INVESTMENT REQUIREMENTS AS OUTLINED IN THE 5-YEAR PLAN, HIGHLIGHTING SOME OF THE STEPS TAKEN BY THE GVN TO IMPROVE EFFECTIVENESS AND EFFICIENCY OF ODA. MPI PHUC NOTED THAT VIETNAM'S TOTAL INVESTMENT REQUIRED DURING THE FIVE-YEAR PLANNING PERIOD WILL BE \$60 BILLION. EFFICIENT ODA TRANSACTIONS AND ACCOUNTABILITY WILL BE ESSENTIAL, GIVEN THE SCARCITY OF RESOURCES. THEREFORE, NECESSARY ACTIONS WILL HAVE TO INCLUDE THE ESTABLISHMENT OF AN INSTITUTIONAL AND LEGAL FRAMEWORK AND PROCEDURES FOR EFFECTIVE ODA USE, THE PROVISION OF COUNTERPART FUNDS, AND SOUND MONITORING AND EVALUATION OF ODA TRANSACTIONS AND USE. THE GVN ALSO REMARKED THAT SOME PARTNERSHIPS AMONG THE DONOR COMMUNITY**  
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HAVE CAUSED A BURDEN ON THE ODA PLANNING AND DISTRIBUTION SYSTEM.

**¶21. (U) ACCORDING TO THE DISCUSSANT PAPER PRODUCED BY THE UK, VIETNAM'S PROJECTS-BASED APPROACH TO ODA DELIVERY HAS A NUMBER OF NOTABLE DRAWBACKS. THESE INCLUDE HIGH TRANSACTION COSTS, UNDERMINING OF GOVERNMENT SYSTEMS THROUGH THE ESTABLISHMENT OF PARALLEL PROJECT MANAGEMENT AND FINANCIAL ADMINISTRATION SYSTEMS, AND FRAGMENTATION OF THE DEVELOPMENT EFFORT, WHICH LEADS TO GAPS AND INEFFICIENT SPENDING. THE PAPER FURTHER OUTLINED SOME RECOMMENDATIONS FOR THE GVN IN ORDER TO PROMOTE MORE SECTORAL AND PROGRAMMATIC APPROACHES, INCLUDING FIDUCIARY RISK ASSESSMENT, ELABORATION OF A PRIORITIZED AND PRACTICAL AGENDA TO IMPLEMENT THE CPRGS WITH GVN RESOURCES ALIGNED TO STRATEGIC OBJECTIVES, CONTINUED PUBLIC ADMINISTRATION REFORM, FINANCE MODERNIZATION, AND CAPACITY BUILDING FOR ODA MANAGEMENT. THE PAPER ALSO EXAMINED THE PROS AND CONS OF DIRECT BUDGET SUPPORT TO NATIONAL STRATEGIES, WHICH HELPS TO PROMOTE OWNERSHIP, PARTNERSHIP, PUBLIC ACCOUNTABILITY, AND SUSTAINABILITY, BUT CARRIES FUDICIA RISKS FOR TRACKING AND UTILIZATION OF FUNDS. OVERALL, THE UK CALLED FOR INCREASED RESPONSIBILITY ON THE PART OF THE GVN, WHILE OTHER DELEGATES ENCOURAGED STREAMLINING OF BUREAUCRACIES AND**

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GREATER FLEXIBILITY ON THE PART OF DONORS.

¶22. (U) DELEGATES ALSO NOTED A NUMBER OF VIETNAM'S ACHIEVEMENTS IN THE MANAGEMENT OF ODA, INCLUDING COMMITMENT TO THE PUBLIC ADMINISTRATION REFORM MASTER PLAN, THE COMPLETION OF THE COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENT AND THE COUNTRY PROCUREMENT ASSESSMENT, AND THE MPA WEBSITE, WHICH HAS HELPED INCREASE TRANSPARENCY. THESE ACCOMPLISHMENTS HAVE INCREASED DONOR OPTIMISM ABOUT USING SECTOR-WIDE APPROACHES AND DIRECT BUDGET SUPPORT. HOWEVER, DELEGATES NOTED CERTAIN REFORMS HAVE TO BE IMPLEMENTED IN ORDER TO ACCOUNT FOR THE MISMATCH BETWEEN ACTIONS PROPOSED IN THE CPRGS AND ACTIVITIES FUNDED IN THE PIP, AS WELL AS THE LACK OF A MEDIUM-TERM EXPENDITURE FRAMEWORK TO FACILITATE PRIORITIZATION. ADDITIONALLY, DELEGATES NOTED THE DISCONNECT BETWEEN CAPITAL AND RECURRENT BUDGETING, WEAKNESSES IN DOMESTIC ACCOUNTABILITY, AND CONCERNS REGARDING CORRUPTION. ALSO OF GREAT CONCERN WERE ACCOUNTABILITY ISSUES IN TRANSACTIONS AND DISBURSEMENTS,

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AND SLUGGISH DISBURSEMENT PROCESSES.

¶23. (U) THE EU DELEGATION COMMENTED ON THE POSITIVE EFFECTS OF ODA HARMONIZATION, INCLUDING A REDUCTION IN TRANSACTION COSTS AND INCREASE IN VIETNAMESE OWNERSHIP. THE EU ALSO NOTED CONSTANT INTERNATIONAL STAFF TURNOVER AS ONE PARTICULAR DRAWBACK IN THE HARMONIZATION PROCESS. AN NGO REP CAUTIONED THE CG THAT, GIVEN THE CURRENT MISMATCH BETWEEN SECTORAL POLICIES AND PLANS, SECTOR-WIDE APPROACHES SHOULD BE APPROACHED WITH CARE. ADDITIONALLY, HE NOTED THE OVERWHELMINGLY DISPROPORTIONATE ALLOCATION OF EXPENDITURES ON TRANSPORTATION INFRASTRUCTURE, RATHER THAN ON ESSENTIAL HUMAN DEVELOPMENT PROGRAMS SUCH AS HEALTH AND EDUCATION. IN ADDITION, GVN INITIATIVES FOR PEOPLE WITH DISABILITIES HAVE BEEN NEGLECTED, INCLUDING EFFORTS TOWARD ENFORCEMENT OF BARRIER-FREE ACCESS TO PUBLIC AND PRIVATE BUILDINGS, VOCATIONAL TRAINING, AND INCLUSIVE EDUCATION. ROUGHLY SEVEN MILLION PEOPLE LIVE WITH DISABILITIES IN VIETNAM; ONLY 30% OF CHILDREN WITH DISABILITIES RECEIVE PROPER EDUCATION AND ROUGHLY 96% OF ALL PEOPLE WITH DISABILITIES ARE UNEMPLOYED. FINALLY, THE EU EMPHASIZED THAT, WHILE THERE ARE A SIGNIFICANT NUMBER OF ORGANIZATIONS WORKING IN PREVENTION ACTIVITIES FOR HIV/AIDS, NOT ENOUGH PUBLIC SUPPORT HAS BEEN PLACED ON CARE AND SUPPORT OF PEOPLE LIVING WITH HIV/AIDS.

¶24. (U) AMBASSADOR BURGHARDT NOTED CONCERN REGARDING TAXATION OF ODA. ALTHOUGH THE GVN IS SUPPOSED TO PROVIDE VAT REIMBURSEMENT FOR ODA, THE MINISTRY OF FINANCE RARELY REFUNDS VAT ON USG-FUNDED PROGRAMS. THE AMBASSADOR EMPHASIZED THAT THESE NON-REIMBURSED FUNDS CANNOT BE USED

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FOR ASSISTANCE PROGRAMS, CRIPPLING POTENTIAL PROGRAM SUCCESSES. ON HARMONIZATION, THE AMBASSADOR REMARKED THAT COLLABORATION AND COORDINATION ARE AS ESSENTIAL FOR THE GVN AS THEY ARE FOR DONORS AND IMPLEMENTING AGENCIES. THE AMBASSADOR COMPLIMENTED THE GVN FOR ITS HARMONIZED APPROACH TO TECHNICAL COOPERATION IN SUPPORT OF THE BTA. SPECIFICALLY, THE USAID-FUNDED STAR PROGRAM HAS OVER 40 COUNTERPARTS, AND THE GVN IS SYNCHRONIZING THEIR INPUTS ADMIRABLY. BOTH DELEGATIONS FROM DENMARK AND THE EU ASSOCIATED THEMSELVES WITH THE AMBASSADOR'S STATEMENTS REGARDING ODA TAXATION.

¶25. (U) DURING THE FINAL SESSION, THE MINISTRY OF EDUCATION AND TRAINING REPORTED ON BUDGET ALLOCATIONS FOR

2003 AND PREDICTIONS FOR 2005. CURRENTLY, THE GVN PROVIDES 15.5 PERCENT OF ITS NATIONAL BUDGET FOR EDUCATION. THIS PERCENTAGE WILL GROW TO 16 PERCENT NEXT YEAR, AND 18 PERCENT BY 2005.

**¶26.** (U) DONORS COLLECTIVELY PLEDGED \$2.5 BILLION IN ASSISTANCE, A SUM EXCEEDING THE PRIOR YEAR'S PLEDGE LEVEL BY ONE MILLION DOLLARS, OR AN INCREASE OF 4.5% FROM THE PREVIOUS YEAR. MS. CHILES INDICATED THE USG'S INTENTION TO PROVIDE \$33.6 MILLION IN ASSISTANCE TO VIETNAM, SUBJECT TO CONGRESSIONAL APPROVAL AND AVAILABILITY OF

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FUNDS. THE ASSISTANCE WILL BE COMPRISED OF TECHNICAL TRAINING AND SUPPORT IN NUMEROUS FACULTIES INCLUDING HEALTH, TRADE, AND THE ENVIRONMENT, AS WELL AS HUMANITARIAN ASSISTANCE, DISASTER RELIEF, EDUCATION, AND FOOD ASSISTANCE. USG AGENCIES INVOLVED INCLUDE USAID, THE CENTERS FOR DISEASE CONTROL, THE DEPARTMENT OF LABOR, THE DEPARTMENT OF DEFENSE, THE DEPARTMENT OF AGRICULTURE, AND THE AMBASSADOR'S EMERGENCY RESPONSE FUNDING MECHANISM.

HUMAN RIGHTS

**¶27.** (U) ADDITIONALLY, SOME DELEGATES SHARED CONCERNs ABOUT HUMAN RIGHTS ISSUES, INEQUALITIES, AND THE WIDENING GAP BETWEEN THE WEALTHY AND THE POOR. IN ITS OFFICIAL DELEGATION STATEMENT, THE US NOTED AS YET INSUFFICIENT PROGRESS WITH REGARD TO CERTAIN FREEDOMS, ESPECIALLY THAT OF RELIGIOUS FREEDOM. THE DELEGATION STATEMENT URGED THE GVN TO DO MORE TO DEVELOP ITS HUMAN RESOURCES AND TO

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INCREASE ACCESS TO THE INFORMATION NECESSARY FOR CITIZENS TO PARTICIPATE MEANINGFULLY IN LEGAL AND CIVIL INSTITUTIONS AS WELL AS IN THE POLITICAL PROCESS. THE NGO DELEGATION, AMONG OTHERS, ALSO NOTED THAT THERE STILL REMAIN SOCIAL INEQUALITIES, MARGINALIZING ETHNIC MINORITIES WHO LIVE IN THE CENTRAL HIGHLANDS AND NORTHERN MOUNTAINOUS REGIONS.

**¶28.** (U) COMMENT: THIS YEAR'S VIETNAM CG WAS CHARACTERIZED BY POSITIVE SUPPORT FOR THE GVN'S PROGRESS ON DEVELOPING PLANS AND STRATEGIES TO INCREASE DEVELOPMENT AND COMBAT POVERTY, AS WELL AS DONOR ENCOURAGEMENT FOR FASTER REFORMS IN THE BANKING AND SOE SECTORS. DELEGATES NOTED A NEED FOR MORE EFFICIENT

TRANSACTIONS AND HARMONIZATION IN ODA DISBURSEMENT AND UTILIZATION. THE USDEL COMMENTS WERE WELL-RECEIVED AND SUPPORTED AT THIS YEAR'S CONSULTATIVE GROUP MEETING.

129. (U) COMMENT CONTINUED: THE GENERAL TENOR OF THE MEETING WAS REALISTIC, WITH BOTH BILATERAL AND MULTILATERAL DONORS ENGAGING IN A CONSTRUCTIVE DIALOGUE WITH THE GVN. WHILE ALL PARTICIPANTS TOOK NOTE OF THE PROGRESS MADE IN THE PAST YEAR, THEY ALSO POINTED TO AREAS WHERE CONTINUED WORK REMAINS NECESSARY. UNLIKE PAST YEARS, JAPAN, THE LARGEST DONOR, WAS VISIBLY DISSATISFIED WITH RECENT GVN POLICIES. IN ITS PLEDGING STATEMENT, THE DELEGATION EXPLICITLY LINKED VIETNAMESE ECONOMIC POLICIES TO THE CONTINUATION OF GOJ ASSISTANCE, STATING THAT "THE POLICIES THAT THE VIETNAMESE GOVERNMENT ADOPT AND IMPLEMENT IN THE FIELD OF BUSINESS ENVIRONMENT WILL BE AN IMPORTANT ELEMENT FOR OUR EXAMINATION FOR

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DETERMINING THE DIRECTION, CONTENT, AND SIZE OF JAPANESE ASSISTANCE IN THE FUTURE." ALTHOUGH NOT EXPLICITLY MENTIONED, THIS POSITION IS LIKELY A RESULT OF THE GVN'S SUDDEN AND ARBITRARY DECISION IN OCTOBER TO CHANGE DRAMATICALLY THE CONDITIONS OF INVESTMENT LICENSES OF SEVERAL JAPANESE MOTORBIKE PRODUCERS AND TO LIMIT THE IMPORTATION OF MOTORBIKE KITS, AN IMPORTANT JAPANESE INVESTMENT HERE. OVERALL, THE MEETING WAS SUCCESSFUL, PRODUCTIVE, AND A TRUE FORUM FOR SHARED IDEAS, CRITIQUE AND PRAISE.

BURGHARDT

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